

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ACCRA 001283

SIPDIS

SENSITIVE

TREASURY FOR ALEX SEVERENS

E.O. 12958: N/A

TAGS: [EFIN](#) [GH](#)

SUBJECT: GHANA COMPLETES IMF LETTER OF INTENT, PUSHES FOR
HIPC COMPLETION POINT

REF: ACCRA 929

Summary

1. (SBU) The GoG submitted its Letter of Intent (LOI) to the IMF on June 8, in time for IMF Executive Board meeting to go forward as planned on June 30. The GoG is working to fulfill prior actions: 1) impose a 2.5 percent VAT increase; 2) adjust water and electricity prices; and 3) complete wage negotiations. The GoG will soon announce its intention to deregulate the petroleum sector starting February 15, 2005, which is a requirement for reaching HIPC Completion Point this July. End Summary.

Status of IFI Programs

2. (SBU) The GoG submitted its Letter of Intent to the IMF on June 8, just in time for IMF staff to get it ready for the IMF Executive Board meeting June 30. Post obtained a copy from contacts at the Bank of Ghana (emailed to Treasury and EB/IFD/OMA). Based on this draft and the results of the IMF and World Bank program reviews in May, both IMF and World Bank staffs are circulating documents to their Executive Directors related to their programs and HIPC. According to World Bank-Ghana staff, the GoG has met all conditions for its Poverty Reduction Support Credit (PRSC). The GoG still has several outstanding prior conditions for the IMF Poverty Reduction and Growth Facility (PRGF) and for the IMF Board to approve HIPC Completion Point.

Completed Prior Actions

3. (SBU) The GoG has fulfilled the following prior actions:

-- The GoG increased water tariffs 16 percent in April to reach cost-recovery levels. Current electricity tariffs are appropriate, but both water and electricity prices must be reviewed in August and November 2004, and February 2005, and adjusted if necessary.

-- The GoG completed wage negotiations to keep salaries in line with the 17 percent increase authorized in the 2004 budget.

-- On June 9, the GoG introduced a legislative instrument in Parliament to implement the National Health Insurance Levy. The levy automatically goes into effect 21 days after the legislative instrument is presented to Parliament, although the IMF has allowed the GoG to start charging it on August 1. The levy -- equivalent to a 2.5 percent VAT increase -- should raise almost USD 45 million in new revenue.

-- In June the Ministry of Finance imposed spending ceilings on ministries and departments.

Pending Prior Actions

4. (SBU) The critical outstanding action is the GoG's agreement with the IMF to announce publicly that it will deregulate the petroleum sector to allow market forces to determine gas prices. IMF staff insisted that the press release describe the key elements of the new regime and the time frame for implementation. The GoG has prepared a draft press release announcing its intention to deregulate starting February 15, 2005. After IMF staff sign off on the statement, the Information Ministry will issue it prior to the June 30 IMF board meeting. (Comment: According to IMF and GoG, this announcement should satisfy the final HIPC trigger, so should pave the way to achieving Completion Point. End Comment)

5. (SBU) The new regulatory/pricing regime will allow oil marketing companies to adjust prices (according to a formula) without prior GoG approval. (Comment: Kufuor has refused to increase gas prices during the election year, choosing to subsidize the sector. Higher world prices increased the monthly subsidy to USD 18.5 million in May. The GoG agreed to contain the 2004 subsidy at 1.1 trillion cedis, or about USD 122 million. If it exceeds this level the GoG must cut spending further. Right now it is funding the subsidy by forcing payments from parastatals and raiding the debt

recovery levy -- a 640 cedi per liter levy used to pay domestic debt. End Comment).

16. (SBU) It is unclear whether the GoG has satisfied IMF concerns regarding a USD 300 million loan, or "supplier's credit," from a Hong Kong company. The IMF initially demanded that Ghana prove the concessionality of this loan by providing evidence that the Chinese government is backing and guaranteeing it. However, it is not mentioned in the draft LOI. (Comment: Finance Minister Osafo Maafo told Ambassador June 9 that the GoG had decided to back away from the loan in response to negative public reaction. For this reason, the IMF and GoG may have agreed to leave it out of the LOI. End Comment)

Comment

17. (SBU) President Kufuor has empowered Finance Minister Osafo Maafo to do whatever it takes to get to HIPC Completion Point. The IMF has made this a much easier job by showing great flexibility on both PRGF and HIPC conditions. We expect the GoG will manage to fulfill all prior actions, including the public announcement of petroleum deregulation, before the June 30 IMF Board meeting, so should achieve its goal of reaching Completion Point in July. However, we suspect the 2005 implementation of petroleum deregulation will be problematic, especially without the HIPC leverage. There is even speculation at mid-levels in the Bank of Ghana and Ministry of Finance that the August implementation of the 2.5 percent VAT increase could slip, due to the expected public outcry. Nevertheless, this government has for the most part done a solid job of macroeconomic and structural reform, and so far seems to be holding its finances together during the election year. Therefore, Post supports the IMF/World Bank position that Ghana meets the basic conditions for Completion Point. End Comment.
Yates